

STANDARD OFFER SERVICE

Electric Restructuring

In the past, your entire electric service was provided by your local electric utility. Under the Electric Customer Choice and Competition Act of 1999, passed by the Maryland General Assembly, the three main parts of electric service – generation, transmission and distribution – have been separated. As a result of this legislation, you now have the choice of selecting a company to provide the generation or energy supply component of your electricity. If you do not choose an electric supplier, you will receive Standard Offer Service (SOS) from your local utility company.

What is Standard Offer Service?

SOS is energy supply service available to customers who do not choose a competitive electric supplier, or for those customers who do not or are unable to renew service

with a competitive electric supplier. The Electric Choice and Competition Act of 1999 established each investor-owned electric utility company as the SOS provider within its own service territory for a set period of time. The two electric cooperatives headquartered in Maryland are also designated as the SOS provider within their respective service territories.

What will happen if I do nothing?

Consumers do not have to do anything to access SOS. If you do not choose an electric supplier, you will automatically receive electricity through SOS.

Who are Suppliers?

A “supplier” or “electric supplier” is a company that has been licensed to sell electricity to customers in Maryland. Generation companies

that wish to be considered eligible suppliers in Maryland are required to go through a rigorous application process conducted by the Maryland Public Service Commission (PSC). Through the application process, Commission staff reviews the financial integrity and past history of the company to protect Maryland consumers.

A list of electric suppliers in your service territory can be viewed on the Commission’s web site: <http://www.psc.state.md.us/psc/>

Explanation of Electric Rates

The shift to market-driven rates will mean that the price everyone pays for their electricity will now be based on market conditions whether you choose an electric supplier or receive SOS.

Regulated Rates

As a result of deregulation, your electric bill has been broken out to show generation, distribution and transmission costs, allowing you to view the cost of each component. The “bundled” price you previously paid on your electric bill was comprised of all costs. The

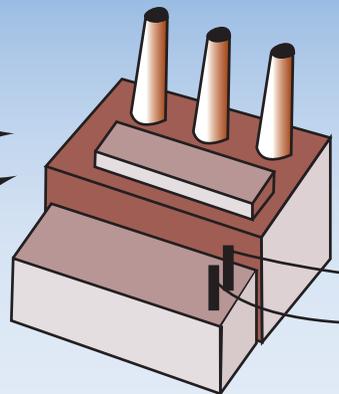
price you paid for electricity in a regulated environment was determined through rate cases filed with the PSC by the utility companies. Many factors are considered during a rate case including the market price of energy and the cost of fuel. Even before deregulation, whenever fuel prices increased, rates were likewise adjusted upwards.

Today, in a restructured market, the distribution and transmission rates charged by the utilities are still established through rate cases regulated by the PSC. However, the generation costs are not regulated and are now reflective of the market price of electricity whether you choose an electric supplier or you receive SOS. This price can be influenced by (1) supply and demand, (2) weather, (3) the underlying cost of the fuel used to generate electricity, (4) available generation capacity within the Mid-Atlantic states, and (5) the cost to electric companies to build additional generation capacity. All of these factors create market forces that will cause generation prices to rise or fall.

WHAT HAS CHANGED



Suppliers
Standard Offer Service, aggregators, brokers, and marketers

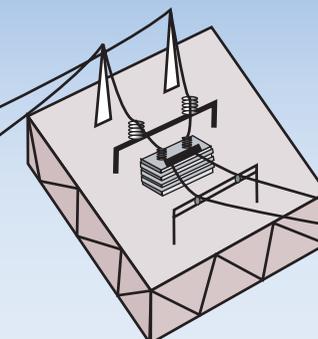
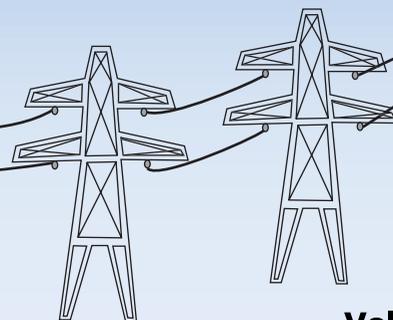


Generation
Electricity produced by power plants

WHAT HAS REMAINED THE SAME

Transmission

Power transferred on lines at high voltages

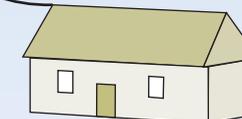


Substation

Voltage “stepped down” to lower level and distributed via distribution lines

Customers

Residential, commercial, and industrial electricity users



Company	Customer Classification	Rate Freeze End Date
BGE	Large C & I* Remaining C & I Residential	7/1/2002 7/1/2004 6/30/2006
Choptank	All Customers	6/30/2005
Conectiv	All Customers	7/1/2004
Allegheny Power	C & I Residential	12/31/2004 12/31/2008
PEPCO	All Customers	7/1/2004
SMECO	All Customers	12/31/2004

* C & I - Commercial and Industrial

In the new landscape, utilities have more incentive to become efficient, which will in turn yield savings for consumers. In addition, customers will now have options which did not exist before, to shop for a supplier based on the prices they provide. Customers can also influence the price they pay for electricity by investing in energy efficient equipment and adjusting their consumption of electricity.

Rate Freezes

Maryland's customer choice act mandated rate reductions, followed by rate freezes, for the customers of all utilities in the State. Residential customers of investor-owned utilities received rate reductions of approximately seven percent starting in 2000. Depending on the utility company, the rate freeze expires between 2004-2008. In addition, customers of electric cooperatives headquartered in Maryland also received rate reductions. From 2001 to 2004, Southern Maryland Electric Cooperative's (SMECO) rates were reduced below the State's rate cap level, as a result of a favorable wholesale power contract negotiated in 2000. Choptank moderately reduced its retail prices each of the four years, as well.

How is the SOS Price Determined?

In order to determine the SOS price for each utility, wholesale auctions were conducted for the investor-owned utilities, where suppliers compete to provide service to Maryland consumers. Expert consultants under the Commission's supervision monitor the SOS auctions establishing a safe and fair process. Each auction has resulted in numerous suppliers bidding to provide electricity well in excess of the amount of power consumers require. Consequently, consumers are protected by, and receive the benefit of, the competitive wholesale market.

The State's electric cooperatives have different wholesale power procurement methods. Choptank Electric Cooperative has an existing long-term contract with Old Dominion Electric Cooperative, which owns plants and procures market-based power through competitive bidding. SMECO uses the services of ACES Power Marketing to purchase multiple contracts on the open market.

Consumer Protections

The 1999 customer choice legislation outlined protections to ensure that all consumers have power and are protected against unscrupulous marketing practices.

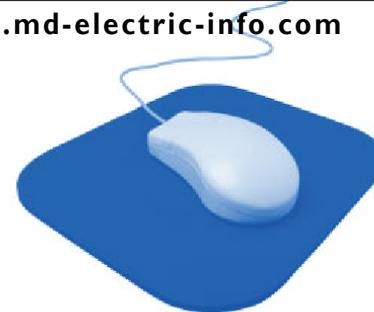
Consumers who live in limited or low-income households also have protections from being denied service and may be eligible for the Electric Universal Service Program (EUSP). EUSP provides assistance with electric bills based on income eligibility standards. For more information, contact:

- OHEP at 1-800-352-1446, www.dhr.state.md.us/meap, or
- www.md-electric-info.com.

For more information on electric choice, call the Maryland Public Service Commission or visit the web site:

1-800-800-4491
TTY/TDD: 1-800-735-2258

www.md-electric-info.com



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MARYLAND PUBLIC
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WHAT YOU NEED
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Standard Offer
Service**

